

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
APRIL 16, 2020 MEETING MINUTES**

**I. CALL MEETING TO ORDER**

The meeting was called to order at 3:08 p.m. via teleconference.

**II. ROLL CALL**

**PRESENT:** Mayor Pro Tem/Chair Will O'Neill, Council Member Joy Brenner, Council Member Diane Dixon, Committee Member John Reed, Committee Member Joe Stapleton, Committee Member Larry Tucker

**STAFF PRESENT:** City Manager Grace K. Leung, Finance Director/Treasurer Dan Matusiewicz, Deputy Director/Finance Steve Montano, Senior Accountant Theresa Schweitzer, Budget Analyst Amy Lewis, Budget and Payroll Supervisor Shannon Espinoza, Public Works Director Dave Webb, Liz McKibbin, Library Clerk

**MEMBERS OF THE PUBLIC:** Jim Mosher

**III. PUBLIC COMMENTS**

Mr. Mosher reemphasized his written comment on the agenda suggesting the Finance Committee considered changing the hour of its meetings during the COVID-19 Stay at Home Order. He added the City's website advises the public meetings will be live-streamed during this time but there is only one (1) channel. He reported the City cannot fulfill its promise since the Zoning Administrator meeting is held at the same time as the Finance Committee meeting. He recommended the Finance Committee change its meeting time to allow for public viewing of both meetings.

**IV. CONSENT CALENDAR**

**MINUTES OF MARCH 12, 2020**

**Recommended Action:**  
Approve and file.

**MOTION:** Chair O'Neill moved to approve the minutes inclusive of Mr. Mosher's comments, Committee Member Stapleton seconded. The motion carried 5 ayes – 0 noes by acclamation, 1 abstention (Collopy)

**V. CURRENT BUSINESS**

**A. PRELIMINARY COVID-19 FISCAL IMPACT ESTIMATE ON FY 2019-20 ADOPTED BUDGET**

**Summary:**

Staff will summarize the COVID19 fiscal impact estimate on FY 2019-20 adopted budget.

**Recommended Action:**

Discuss and provide input for City Council consideration.

The meeting was recessed at 3:30 P.M. due to technical difficulty and resumed via Webex at 4:00 p.m.

Chair O'Neill reminded the Committee they will summarize the COVID-19 impact on the Fiscal Year 2019-2020 adopted budget. Due to the technical difficulty, Chair O'Neill requested Finance Director/Treasurer Dan Matusiewicz provide his presentation orally.

Director/Treasurer Matusiewicz provided a brief overview and stressed there is much economic uncertainty in the forecast especially as it relates to Sales Tax and Governor Newsom's Executive Order. He explained the Executive Order allows businesses to defer up to \$50,000 worth of Sales Tax in the next 12 months. He reported employment and revenue has dropped more sharply than any recession he has seen. He reported the Federal Government has stepped in to help capital markets by infusing liquidity and this action is good for equity.

Senior Accountant Theresa Schweitzer provided a brief overview of General Fund Revenues by category and stated the budget is \$231 million. Year-to-date (YTD) Actual Revenue is \$158 million which is approximately 68.6% of the budget. She reported the projected loss of revenue is \$13.5 million which is a 6% decrease in the budget.

Senior Accountant Schweitzer reported Secured Property Taxes comprise the bulk of the revenue which accounts for 85% of City property tax revenue. She noted the largest payments are received in December and April and staff will have a better calculation when the numbers are received next week. She projected property tax revenues will remain steady, however staff has included a \$900,000 reduction from the budget in the event all payments are not received in April. She explained property tax revenues were coming 5.4% higher than the prior year.

Senior Accountant Schweitzer provided a brief overview of Sales Tax Revenue and reported it is largely generated from three (3) main industry categories including Autos and Transportation, General Consumer Goods, and Restaurants/Hotels. In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz advised the Property Tax Revenue forecast is due to delinquent payments. He also explained that Governmental Funds can only accrue for 60-days and further explained delinquent payments would not start until fall 2020.

Senior Accountant Schweitzer reported the sales revenue projections provided by the City's Sales Tax consultant were modeled for statewide revenues and did not apply to the City so an internal model was developed by looking at the top 120 Sales Tax paying businesses. She reported restaurants are incurring revenue losses of 45-75% and Auto and Transportation businesses incurring a revenue loss of 70%-80%. She reported the California Department of Tax and Fee Administration (CDTFA) has allowed small businesses with less than \$5 million in annual revenue to defer payments of up to \$50,000 in Sales/Use Tax which will be repaid in 12 equal installments likely starting in August 2020. She forecasted a \$1.3 million reduction in Sales Tax Revenue for the City.

Senior Accountant Schweitzer reported the COVID-19 pandemic has significantly impacted the travel and leisure industry of Newport Beach with 11 of 21 hotels completely closed. She stated hoteliers are reporting occupancy of 2%-10% and room rate reductions of 40%. She forecasted a revenue loss of \$5.4 million in TOT.

Senior Accountant Schweitzer reported "other" General Fund categories are being hit hard and projects a \$5.9 million revenue loss in those categories. She projected the Gas Tax (Fund 121) will have a revenue loss of \$500,000, Measure M (Fund 122) will have a revenue loss of \$330,000, SB1 RMRA (Fund 126) will have a loss of \$150,000. She does not project a material impact on Water and Wastewater (Funds 701 and 711).

Director/Treasurer Matusiewicz reported there are some natural savings in General Fund Expenditures due to vacancies and noted there is a hiring freeze in place. He provided a brief overview of areas of savings in General Fund Expenditures including a \$3 million reduction in Salary & Benefits, a \$2.6 million reduction in Professional & Contract Services and a \$.5 million in Maintenance & Repair, \$.5 million in Supplies & Materials, \$.6 million in Utilities, \$.2 million

in General Expenses, \$.2 million in Travel & Training, and \$.2 million in Capital (outlay). He also recommends eliminating the \$3 million transfer from the General Fund to the Workers Compensation Fund and retaining \$2 million in the General Fund. Lastly, he reminded the Finance Committee to expect some volatility with the \$13.7 million but feels it is a conservative estimate.

In response to Council Member Dixon's inquiry, City Manager Grace Leung confirmed there is a hiring freeze in place with the exception of Life/Safety positions. She also reported the City is not currently looking at furloughs or requiring employees to use their accrued time off. She noted many part-time employees, particularly in Library and Recreation, are not working due to canceled programming and have been offered other employment opportunities within the City.

Committee Member Collopy commended the extraordinary effort of staff to absorb the revenue loss of \$13.7 million.

Committee Member Stapleton thanked City staff for reaching out to the local businesses to better understand the financial impact.

Committee Member Tucker noted this would be an on-going effort to identify cost-savings and re-evaluate the budget.

Chair O'Neill encouraged City staff to continue to identify additional cost-savings in order to avoid tapping into City Reserves or requiring services cuts. City Manager Leung advised the item will be presented to City Council as a Budget Amendment.

Chair O'Neill opened public comments and hearing none, closed public comments.

Chair O'Neill reported the financial impact on other local cities and expressed concern regarding those who heavily rely on Sales Tax and Tourism. He expressed concern with the City being able to continue with the same levels if the COVID-19 pandemic continues. He empathized with residents and local businesses and thanked City staff for identifying cost-savings.

There was no further action taken on this item.

## **B. COVID-19 FISCAL IMPACT ESTIMATE ON THE FY 2020-21 PROPOSED BUDGET**

### **Summary:**

Staff will summarize the COVID-19 fiscal impact estimate on the FY 2020-21 proposed budget.

### **Recommended Action:**

Discuss and provide input for City Council consideration.

Chair O'Neill reminded the public they may call into the meeting for public comment at (949) 270-8165.

Director/Treasurer Matusiewicz provided an overview of the COVID-19 fiscal impact estimate and noted forecasting revenues will be exceptionally challenging due to widespread uncertainty of how long the virus will last, when a vaccine will be developed and when will widespread testing for occur for antibodies. He provided a brief recap of the Great Recession impact to the City but feels COVID-19 will have a deeper impact. He projected a Revenue Shortfall of \$35-38 million for FY 2020-21.

Director/Treasurer Matusiewicz presented the Morgan Stanley Data and Project model and noted there will be some ongoing impact beyond the current crisis as there may be reluctance in consumer behavior.

Senior Accountant Schweitzer provided a brief overview of the financial impacts to the FY 2020-21 General Fund Revenues due to the COVID-19 pandemic and projected a \$24-\$30 million loss in revenue based on two (2) separate scenarios.

Senior Accountant Schweitzer reported Property Tax in Scenario 1 keeps Property Tax at original FY21 Budget Projection and estimates 5% growth in Secured Property taxes and Scenario 2 reduces the estimated growth to 4% and accounts for potential unpaid taxes if there is a recession. She advised the variance of Scenario 2 to Scenario 1 is \$1.58 million.

Senior Accountant Schweitzer reported Sales Tax Scenario 1 decreases the Sales Tax by 15.5% and Scenario 2 decreases the Sales Tax by 28.4% which is the combined decrease of the entirety of the Great Recession. She advised the variance of Scenario 2 to Scenario 1 is \$2.28 million.

Senior Accountant Schweitzer reported Transient Occupancy Tax (TOT) was calculated using the same impact for both Residential and Hotel TOT. She estimates TOT will be down 90% through the summer, 80% in the fall, 65% in the winter, and 50% in spring 2021.

Senior Accountant Schweitzer reported an across the board revenue decrease in Other Revenue with Scenario 1 being 20% and Scenario 2 being 25%. She reported the combined revenue decrease of the Great Recession was 22%.

Director/Treasurer Matusiewicz reported General Fund Expenditures for FY 2020-21 reductions are projected to be \$37 million. He presented a summary of cuts the City may be able to make for FY 2020-21 and noted an additional \$3 million in cuts were derived from Professional & Contract Services, Maintenance & Repair, Supplies & Materials, and Utilities. He reported additional savings of \$239,000 were found in General Expenses, Travel & Training, and Capital (outlay).

Director/Treasurer Matusiewicz explained the Expenditure Reduction Tiers which includes a Temporary Hiring Freeze (Tier 1), Deferred Capital Spending (Tier 2), Savings Plan Reduction (Tier 3), Contingency Reserve (Tier 4), Discretionary Trust Contributions (Tier 5) and Service Level Cuts (Tier 6). He also reported the City will investigate financing the building of a fire station instead of spending \$10 million of cash. He noted Tier 4 would use \$8 million from the Contingency Reserve which was saved for an event of this magnitude.

In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz reported after using \$5 million from the Discretionary Trust it would leave the account with \$5.8 million. He would like to stick to the plan of continuing to pay down the pension obligation to CalPERS but acknowledged it is a balancing act that requires input from the public, the Finance Committee, and the City Council. Council Member Collopy expressed concern with taking the \$5 million from Contingency Reserves if Discretionary Unfunded Accrued Liability (UAL) payments were made to CalPERS as planned but acknowledged that is a decision for the City Council.

Director/Treasurer Matusiewicz reported the City's portfolio has a duration of two (2) years so the Contingency Reserve only has the potential to grow .25% over time.

In response to Committee Member Tucker's inquiry, Director/Treasurer Matusiewicz clarified the \$5 million payment to CalPERS was intended to protect the City from future experience losses. He acknowledges the City Council has not approved the \$5 million contribution to the CalPERS pension obligations. Committee Member Tucker clarified the \$5 million Director/Treasurer Matusiewicz recommended the City spend towards unfunded liability was to protect the City from another unfunded liability scenario. Director/Treasurer Matusiewicz

clarified the minimum required payment grows each year and the Additional Discretionary Payments (ADP) shrinks.

In response to Committee Member Tucker's inquiry, Director/Treasurer Matusiewicz clarified the ADP remaining less the \$5 million is \$5.8 million the total payment on the unfunded liability would be \$35 million if the City stayed the prior course or \$40 million if the City tries to protect itself from future experience losses. He hopes there will be future experience gains to offset the losses but noted there was some trepidation due to uncertainty if CalPERS could reach 7% consistently.

Director/Treasurer Matusiewicz reported the Hiring Freeze (Tier 1) consists of 23 vacant positions which would be frozen for six (6) months and would reflect a cost-savings of \$1 million. City Manager Leung explained the City will assess those positions in six (6) months to determine if the budget needs to be adjusted.

Director/Treasurer Matusiewicz reported the Deferred Capital (Tier 2) reduction would be achieved by reducing contributions to the Harbor Capital and Facilities Maintenance plans and by deferring and/or canceling some or all of the General Fund pending projects. He also advised the City could reduce the annual contribution to the Facilities Financial Plan (FFP), Tideland Harbor Capital Fund, Neighborhood Enhancement Fund, and Facilities Maintenance Fund.

In response to Chair O'Neil's inquiry, Director/Treasurer Matusiewicz confirmed the draw of \$8.5 million from the cash value from the FFP. He reported there is \$20 million in the FFP for projects that are design but the debt service would be drawing down the fund balance in the FFP. Chair O'Neill noted it is important fact for City Council to understand the impact and recommended Director/Treasurer Matusiewicz dedicate an entire slide to this topic when it is presented to City Council as it is complicated for those who do not serve on the Finance Committee. Director/Treasurer Matusiewicz reminded the Finance Committee the Library Bonds that were refinanced with the Fire Station would end and the debt service payment would be reduced by \$1 million.

Director/Treasurer Matusiewicz reported the Savings Plan Reduction (Tier 3) would reduce intended savings for Worker's Compensation, Uninsured Claims, Equipment Maintenance, Information Technology, and 800MHz radio replacement.

Director/Treasurer Matusiewicz reported the Contingency Reserve (Tier 4) would reduce the funded status by \$8 million with a total of \$44.6 million remaining. He believes it is appropriate timing to use the Contingency Reserves.

Director/Treasurer Matusiewicz reported the Discretionary Trust Contributions would reduce the CalPERS discretionary Unfunded Accrued Liability (UAL) payment by \$5 million. He reported the City will receive the results of the fiscal year from CalPERS on June 30, 2020, and the City would need to start paying on that amount in FY 2022-23 unless the City electively pays for it sooner.

Committee Member Collopy explained it is not reducing the Contingency Reserves by \$8 million, it is \$13 million with the combination of the \$5 million from the Discretionary Trust Contribution. In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz clarified it is not a foregone conclusion the \$5 million would be drawn from the Contingency Reserves, it simply means the City would send CalPERS \$5 million less.

Chair O'Neill explained if the \$5 million was built into the General Fund in Discretionary Trust Contributions and the City chose not to make that \$ 5 million payment, the City would only owe \$3 million from the Contingency Reserve because expenses would be coming down and it would not be the contribution into the Contingency Reserve. He explained if the City makes a

drawdown of \$8 million from Tier 4, the City still has the expenditure of \$5 million extra dollars for the Discretionary Trust Contributions unless the City chose not to make the payment. In that event, he explained, the City is not drawing down its Contingency Reserves of an extra \$5 million, it is simply making a budget amendment to lessen expenditures to reflect the revenue which is the point of doing this in tiers. He anticipates the City adopting a fairly austere budget that has fairly conservative projections and advised it is up to the City Council to determine how many of the tiers it would like to trip. However, he also anticipates the budget will be reviewed in three (3) months at which time can be amended and potential draw from each tier. He explained the importance of tripping four (4) or five (5) tiers because the City will need to pay those back in the future and because it pushes issues into future budgets because there is no backfill. He also explained the City would have to backfill on the Contingency Reserves and the Discretionary Trust Contribution from the General Fund.

In response to Committee Member Tucker's inquiry, Chair O'Neill explained the General Fund is looking at a reduction of \$24.5 million in Scenario 1 and \$35 million in Scenario 2. He clarified the Contingency Reserve is currently at approximately \$50 million.

Committee Member Tucker noted with the reduction in the General Fund there would need to be less funding in Contingency Reserves to comply with the City's policy, but it depends on whether or not this is a one-time scenario. Chair O'Neill acknowledged Committee Member Tucker's point.

Director/Treasurer Matusiewicz emphasized the City has been very good funding its Contingency Reserves which puts the City in a very flexible position, well ahead of any service level reductions.

Director/Treasurer Matusiewicz reported Service Level Cuts (Tier 6) expenditures have been identified as zero (0) and hopes the City does not need to get to this level.

Chair O'Neill emphasized if the City does get to Tier 6 it would need to look at reopening some of the discussions with the City's Bargaining Associations regarding Cost of Living Adjustments (COLA) and pay freezes. Council Member Dixon agreed.

Committee Member Tucker recapped the Subcommittee Report requested assurance the City was right-sized. He suggested this may be an opportunity to revisit the topic and ensure the City is as efficient as possible.

Council Member Brenner expressed her hesitancy in reducing workforce personnel when the City often tells the public there is not enough personnel for such things as enforcement and street closures.

Committee Member Larry Tucker explained he was not suggesting a level of service decrease but wants to ensure the City's workforce is efficient. He expressed his hesitation to continue the City's UAL payments as expected given the current crisis and would like to see it further reviewed. Chair O'Neill reported the Senate Finance Committee is currently meeting about their projected losses and does not foresee a bailout for any cities.

Director/Treasurer Matusiewicz reported on General Fund Expenditures including all five (5) tiered reductions shows the City would likely have a deficit of \$30,000 based on conservative projections and feels it is inconsequential. He reported the next budget milestone dates are the City Council consideration of the City Manager's proposed amendments to the FY 2019-20 budget on April 28th, Finance Committee's 1st review of the FY 2020-21 budget on May 14th, Finance Committee's 2nd review of the FY 2020-21 budget on May 21st, City Council Study Session for 1st review of the proposed budget on May 26th, Finance Committees written comments in response to the City Manager's proposed FY 2020-21 budget and City Council Budget Adoption and GANN limit public hearing on June 9th.

In response to Director/Treasurer Matusiewicz' and Council Member Dixon's inquiry, Chair O'Neill noted the April 30th meeting of the Finance Committee was already reserved but does not need to take place since City Council will be discussing the budget amendments for the FY 2019-20 budget. The Finance Committee has already heard the topics to be discussed.

Committee Member Tucker explained the Finance Committee makes a formal recommendation to the City Council before final budget adoption and will offer comments during the meeting, as necessary. Chair O'Neill agreed.

Chair O'Neill opened public comments.

Mr. Mosher commented the Expenditure Reductions are segregated into tiers which present the implication that one tier is completely exhausted before moving to the next. He feels it may be too rigid as there may be some low-hanging fruit in each of the tiers.

Chair O'Neill closed public comments.

In response to Council Member Tucker's inquiry, Director/Treasurer Matusiewicz confirmed the Property Tax increase of 5% is due to the assessment date for the tax bills was January 1<sup>st</sup>. At that time, the COVID-19 crisis had not yet developed. He noted Property Tax decline will probably impact the City in FY 2022-23.

There was no further action taken on this item.

#### **C. WORKPLAN REVIEW AND REVISED FY 2020-21 BUDGET CALENDAR**

**Summary:**

Staff will review with the committee the agenda topics scheduled for the remainder of the fiscal year and as well as the revised Fiscal Year 2020-21 Budget Calendar.

**Recommended Action:**

Receive and file.

In response to Committee Member Collopy's inquiry, Chair O'Neill confirmed the dates previously noted by Director/Treasurer Matusiewicz are required for the Finance Committee.

In response to Council Member Brenner's inquiry, Chair O'Neill clarified there is no Ad-Hoc Committee meeting for local business advancement, only for bids. City Manager Leung commented the committee title has changed and she will have to report back to the Finance Committee on this inquiry.

Chair O'Neill opened public comments and hearing none closed public comments.

There was no further action taken on this item.

#### **D. BUDGET AMENDMENTS FOR QUARTER ENDING MARCH 31, 2020**

**Summary:**

Staff will report on the budget amendments for the prior quarter.

**Recommended Action:**

Receive and file.

There were no comments from the Finance Committee on this item.

Chair O'Neill opened public comments and, hearing none, closed the public comment period.

There was no further action taken on this item.

**VI. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)**

None

**VII. ADJOURNMENT**

The Finance Committee adjourned at 4:30 p.m. to the next regular meeting of the Finance Committee on May 14, 2020 at 4:00 p.m.

Filed with these minutes are copies of all materials distributed at the meeting.

The agenda for the Regular Meeting was posted on April 13, 2020, at 12:18 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

\_\_\_\_\_  
Will O'Neill, Chair  
Finance Committee

\_\_\_\_\_  
Date